

## Message Text

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ORIGIN STR-07

INFO OCT-01 EUR-12 IO-13 ISO-00 STRE-00 EB-08 SIG-03  
EA-10 AGRE-00 CEA-01 CIAE-00 COME-00 DODE-00  
FRB-03 H-01 INR-10 INT-05 L-03 LAB-04 NSAE-00  
NSC-05 PA-01 CTME-00 AID-05 SS-15 ITC-01 TRSE-00  
ICA-11 SP-02 SOE-02 OMB-01 DOE-15 /139 R

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EB/ITP:WBARRACLOUGH  
EUR/RPE:AALBRECHT  
-----016026 220316Z /62

P 220015Z JUN 78  
FM SECSTATE WASHDC  
TO AMEMBASSY BERN PRIORITY  
AMEMBASSY HELSINKI PRIORITY  
AMEMBASSY LISBON PRIORITY  
AMEMBASSY OSLO PRIORITY  
AMEMBASSY REYKJAVIK PRIORITY  
AMEMBASSY STOCKHOLM PRIORITY  
AMEMBASSY VIENNA PRIORITY  
INFO USMISSION GENEVA PRIORITY  
AMEMBASSY BONN PRIORITY  
AMEMBASSY BRUSSELS PRIORITY  
AMEMBASSY COPENHAGEN PRIORITY  
AMEMBASSY DUBLIN PRIORITY  
AMEMBASSY THE HAGUE PRIORITY  
AMEMBASSY LONDON PRIORITY  
AMEMBASSY LUXEMBOURG PRIORITY  
AMEMBASSY PARIS PRIORITY  
AMEMBASSY ROME PRIORITY

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USEEC ALSO FOR EMBASSY, USMTN ALSO FOR MISSION  
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E.O. 11652: N/A

TAGS: ETRD, MTN

SUBJECT: EC/EFTA RULES OF ORIGIN

1. AT HIGH LEVEL MEETING IN WASHINGTON JUNE 19-20, AMBASSADOR STRAUSS TOLD HAERKAMP, VICE PRESIDENT, COMMISSION OF EUROPEAN COMMUNITY; USHIBA, MINISTER FOR EXTERNAL ECONOMIC AFFAIRS, GOVERNMENT OF JAPAN AND JACK H. WARREN, CANADIAN COORDINATOR FOR THE MULTILATERAL NEGOTIATIONS THAT THE RULES OF ORIGIN IN THE EC/EFTA AGREEMENTS WAS ONE OF THE FOUR KEY ISSUES ON WHICH THE U.S. HAD TO HAVE SATISFACTION IN THE MTN.

2. WHEN THE EC/EFTA FREE-TRADE AREA AGREEMENTS WERE EXAMINED IN GATT IN 1972-3, THE U.S. ARGUED THAT THE RULES OF ORIGIN EMBODIED IN THE AGREEMENTS WERE STRICTER THAN NECESSARY TO PREVENT TRADE DEFLECTION; WERE INCONSISTENT WITH GATT OBLIGATIONS; AND WOULD HAVE A SERIOUS ADVERSE EFFECT ON U.S. TRADE. IN JANUARY 1974, THE U.S. INITIATED FORMAL CONSULTATIONS WITH THE PARTIES TO THE AGREEMENTS PURSUANT TO THE PROCEDURES OF GATT ARTICLE XXII:1. SINCE THEN NUMEROUS DISCUSSIONS HAVE BEEN HELD WITH THE EC COMMISSION AND REPRESENTATIVES OF THE EFTA COUNTRIES IN AN EFFORT TO FIND A SOLUTION TO THIS PROBLEM. THE DISCUSSIONS HAVE NOT PRODUCED SIGNIFICANT RESULTS. IN

NOVEMBER 1977, THE U.S. SUBMITTED A FORMAL REQUEST ON THE ISSUE IN THE MTN UNDER PROCEDURES FOR HANDLING NON-TARIFF MEASURES NOT BEING DEALT WITH MULTILATERALLY.

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3. THE U.S. HAS REQUESTED THE ADOPTION OF AN ALTERNATIVE 50 PERCENT VALUE RULE -- THAT IS, A MANUFACTURER IN AN EC MEMBER STATE, OR IN AN EFTA COUNTRY, SHOULD BE PERMITTED EITHER TO COMPLY WITH EXISTING RULES OF ORIGIN OR USE IMPORTED MATERIALS AND COMPONENTS UP TO 50 PERCENT OF THE VALUE OF HIS FINISHED PRODUCT IN ORDER TO QUALIFY FOR DUTY-FREE TREATMENT WITHIN THE AREA. THIS WAS THE PROCEDURE USED (EXCEPT FOR TEXTILES) IN THE EFTA FREE TRADE AREA AGREEMENT UNTIL THE EC/EFTA AGREEMENTS WERE NEGOTIATED.

4. ELIMINATION OF TARIFFS ON INDUSTRIAL TRADE WITHIN THE EC/EFTA AREA PROCEEDED IN STAGES AND WAS NOT COMPLETED UNTIL MID 1977. THE EFFECTS OF THE RULES OF ORIGIN ON THIRD COUNTRIES' TRADE HAVE INCREASED AS INTERNAL TARIFFS WERE REMOVED. MOREOVER, UNTIL RECENTLY THE RULES OF ORIGIN WERE NOT STRICTLY ENFORCED. IT IS APPARENT THAT WE NOW HAVE PROBLEMS WHERE THE RULES ARE STRICTEST -- IN THE TEXTILE SECTOR, IN MACHINERY AND EQUIPMENT (BTN CHAPTERS 84-92) AND TO SOME EXTENT IN CHEMICALS. THE EC HAS OFFERED TO CONSIDER CHANGES IN THE RULES ON SELECTED PRODUCTS. HOWEVER, THIS IS NOT SUFFICIENT BECAUSE THE

PROBLEM IS A GENERAL ONE REQUIRING A GENERAL SOLUTION. WE HAVE PUT OUR REQUEST IN THOSE TERMS.

5. FOR EFTA ADDRESSEES: GIVEN THE LONG STANDING DISCUSSION OF THIS ISSUE, EFTA GOVERNMENTS SHOULD BE AWARE OF THE IMPORTANCE WE ATTACHED TO IT. FAILURE TO ACHIEVE A RESOLUTION BILATERALLY WITH THE EC MAKES IT ESSENTIAL THAT WE NOW ADDRESS THE RULES OF ORIGIN ISSUE IN THE MTN AS A MATTER OF A HIGH PRIORITY. WE BELIEVE EFTA GOVERNMENTS SHOULD BE AWARE OF THE EMPHASIS AND PRIORITY WE PLACED ON THE ISSUE DURING THE JUNE 19-20 DISCUSSION. AMBASSADORS ARE REQUESTED, THEREFORE, TO REINFORCE ASAP WITH HOST GOVERNMENTS THE POSITION WE TOOK IN WASHINGTON. YOU SHOULD STRESS THE IMPORTANCE WE PLACE ON THIS ISSUE.  
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THE NEED FOR RESOLUTION IN THE MTN AND URGE THEM TO ADOPT FORTHCOMING POSITIONS. YOU MAY WISH TO NOTE THAT EC COUNCIL MEETING ON JUNE 27 WILL BE LAST OPPORTUNITY FOR DECISION WITHIN THE EC BEFORE JULY 15 AGREEMENT ON MTN.

6. FOR EC CAPITALS: YOU SHOULD BE PREPARED TO TAKE THIS ISSUE UP WITH MEMBER STATES PROMPTLY UPON FUTURE INSTRUCTIONS.

7. FOR USEC BRUSSELS: DURING DISCUSSIONS IN WASHINGTON PAUL LUYTEN INDICATED THAT EC COMMISSION PLANNED TO SUBMIT TO THE EC COUNCIL A PROPOSAL TO LIBERALIZE THE RULES OF ORIGIN IN BTN CHAPTERS 84-92. ANY INFORMATION REGARDING SUCH A PROPOSAL WOULD BE HELPFUL TO US. VANCE

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## Message Attributes

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